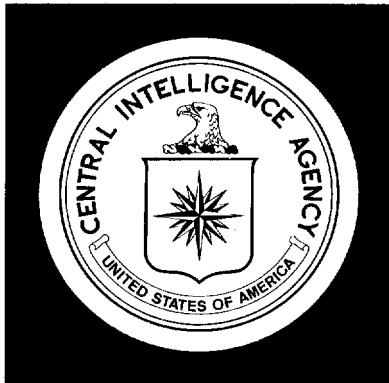


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SECRET

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10 October 1972

Central Intelligence Bulletin

CONTENTS

VIETNAM: Sharp fighting continues north of Saigon.
(Page 1)

EGYPT-USSR: Anti-Soviet recriminations resumed.
(Page 3)



PANAMA: New phase for the Torrijos government.
(Page 5)

JAPAN: Possible new trade program (Page 7)

COSTA RICA - COMMON MARKET: Step toward crisis resolution (Page 7)

LAOS: Enemy air attack in the north (Page 9)

SECRET

25X1

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Saigon and Capital Special Zone



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VIETNAM: Sporadic sharp skirmishing continues north of Saigon in Binh Duong Province. Government defense forces have clashed repeatedly with small enemy units near the provincial capital of Phu Cuong. The Communists hold a village on Route 13 between the town and a major government military base at Lai Khe, and are also reported to be in control of several hamlets near Phu Cuong. [redacted]

[redacted] numerous North Vietnamese troops have infiltrated hamlets east and south of Phu Cuong and, as of 5 October, had installed telephone wires and prepared positions close to Routes 13 and 1A.

The government has moved two regular battalions into blocking positions near Bien Hoa while both ranger and armored units have been deployed along Route 13. [redacted] elements of the enemy's 9th Division are also participating. [redacted] the current campaign is designed to demonstrate Saigon's vulnerability to attack at any time the Communists choose, and to "put pressure" on the government and the US prior to the November elections.

The Communists evidently intend to increase the pace of military activity in several other provinces around the capital as well as in the delta as part of the planned October "highpoint." A recently captured prisoner says the Communists will try to attack Tay Ninh City and carry out major actions in Hau Nghia Province. An increase in activity there is probably related to this plan. Meanwhile, enemy forces in several northern delta provinces, notably Long An, Dinh Tuong, and Kien Hoa, also appear ready for action, particularly along Route 4, the key link between the delta region and Saigon. Communist attacks already may be under way in several areas, especially in the western delta province of Chau Doc.]

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10 Oct 72

Central Intelligence Bulletin

1

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In the central highlands province of Kontum, three days of sustained Communist shellings as well as stiff resistance to government clearing operations near Kontum City have resulted in heavy casualties to both sides. Fighting has eased for the moment, however. In the coastal area, South Vietnamese forces have recaptured several key positions in Binh Dinh, Quang Ngai, and Quang Tin provinces.

On the Quang Tri battlefield, South Vietnamese Marines report some progress in a limited offensive that was launched north of Quang Tri City on 7 October. The Marines have reoccupied the Trieu Phong District headquarters about three miles north of the city.

25X1

10 Oct 72

Central Intelligence Bulletin

2

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EGYPT-USSR: Egypt has renewed its recriminations against the Soviet Union just a week before Prime Minister Sidqi's scheduled arrival in Moscow.

On 5 October, a Beirut weekly magazine published an interview in which President Sadat is quoted as saying that he had ended the Soviet military presence in Egypt because the Soviets would not fight and had become "a burden to us." Sadat said the decision was also intended to let the Kremlin know that Soviet strategy in the Middle East could not be fulfilled at Egyptian expense.

The editor of the Egyptian newspaper Akhbar al-Yawm, whose criticism in late August and early September riled the Soviets, also renewed his attacks on Moscow over the weekend. The editor resurrected charges that the Soviets had failed to supply Egypt with necessary arms and said "weapons that are not sufficient for a state to fight the war that has been imposed upon it are mere pieces of jewelry."

The comments are probably designed to put public pressure on the Soviets prior to Sidqi's visit on 16 October. Despite the new Egyptian criticism, both sides presumably are interested in reconciliation.

The renewed criticism could also be intended as a warning to Iraq and Syria of the pitfalls involved in having too close a relationship with the Soviets.

25X1

10 Oct 72

Central Intelligence Bulletin

3

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Approved For Release 2003/08/05 : CIA-RDP79T00975A022900100001-6

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PANAMA: The inauguration tomorrow of Demetrio Lakas and Arturo Sucre as constitutional president and vice-president will open a new phase of activity for the government dominated by General Torrijos that probably will focus primarily on the stalled canal treaty negotiations.

Having overcome years of accumulated skepticism to convince the people of his concern for their well being, Torrijos is now at a point where he has to deliver. In the short run Torrijos will probably try to breathe new life into the faltering agrarian reform program and develop new links between national and local government to improve administrative efficiency. He will probably reshuffle the cabinet and the Guard command and may impose greater control over the economy to force business to invest in socially desirable projects. Nevertheless, under present conditions Torrijos' commitment to reform in the domestic arena will considerably exceed his ability to perform.

Torrijos' style of governing does not allow for simultaneous handling of a variety of key issues. Within the next couple of months, therefore, Torrijos will find it necessary to choose between devoting a major portion of his time to development tasks or to the canal issue. Given the intractability of domestic problems, the greater glamour of international politics, the over-riding importance to Panama of the canal, and the fact that a comprehensive development program would require the additional revenue that would be available when a new treaty is adopted, the negotiation of a new treaty will get major attention.

Torrijos probably approaches the canal problem with some degree of trepidation. He will be identified with whatever agreement is reached, and his fame and future will depend in large measure on its

10 Oct 72

Central Intelligence Bulletin

5

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public acceptance. He already has been in control of Panama for four years, has been given special powers for another six years, and probably intends to assume the presidency formally in 1978 for a six-year term. Thus, Torrijos cannot afford to lay himself open to charges that he bargained poorly or was bought off by the US. Under these circumstances, he may find it difficult to adopt a statesmanlike attitude and accept half-a-loaf. It will also be difficult for Torrijos to satisfy himself that he has obtained the best possible offer from the US. Panama has long believed that public tantrums, embarrassing to the US, yield results. Torrijos' experiences in office have undoubtedly reinforced this view.

Torrijos apparently does not want to aggravate already strained bilateral relations at this time and probably does not expect significant progress on a treaty before the end of this year. Nonetheless, he has launched a propaganda effort to gain the diplomatic support which he hopes to parlay into bargaining leverage. The assembly earlier this month passed a resolution calling on Torrijos to reject US payments for use of the zone. Panamanian ambassadors in Spain, Peru, Germany, and Chile have added their voices to those in Uruguay and Brazil, trumpeting Panama's claim to sovereignty over the Canal Zone. Finally, the government is mounting a major campaign to have the UN Security Council meet in Panama City next March when Panama will chair the council. Panama is already claiming the support of 11 of the 15 council members for the change of venue and admits that the purpose of the meeting will be to sell its position on the canal to the American public.

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JAPAN: Tokyo may soon announce a new trade program that it hopes will forestall mounting international pressure for another yen revaluation. The new program will consist of a series of measures to reduce Japanese import restrictions, including easing import quotas, simplifying import procedures, and reducing tariffs and taxes on imported commodities. Prime Minister Tanaka has rejected an export surcharge advocated by the Ministry of Finance aimed at slowing Japanese export expansion. The government hopes to work out final details and announce the plan by the end of the week. [REDACTED]

* * * *

COSTA RICA - COMMON MARKET: Costa Rica's efforts to put its financial house in order may be an important step toward resolving the Common Market crisis. The government has agreed on the essentials of a badly needed stabilization program--something other Market members have insisted on before trade with Costa Rica can be normalized. Growing concern within the Costa Rican business community over the trade impasse and evidence of domestic economic dislocation, such as the recent Firestone shutdown, probably forced President Figueres to move at last toward formulating decisions on both internal and Market economic policy. The new stabilization program implies that Costa Rica is now willing to discipline its internal monetary and fiscal management, and the program should clear the way for a renewal of negotiations with other Market countries. The faltering Market is not yet dead, but decisions reached in the next few weeks will be critical.

[REDACTED]

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10 Oct 72

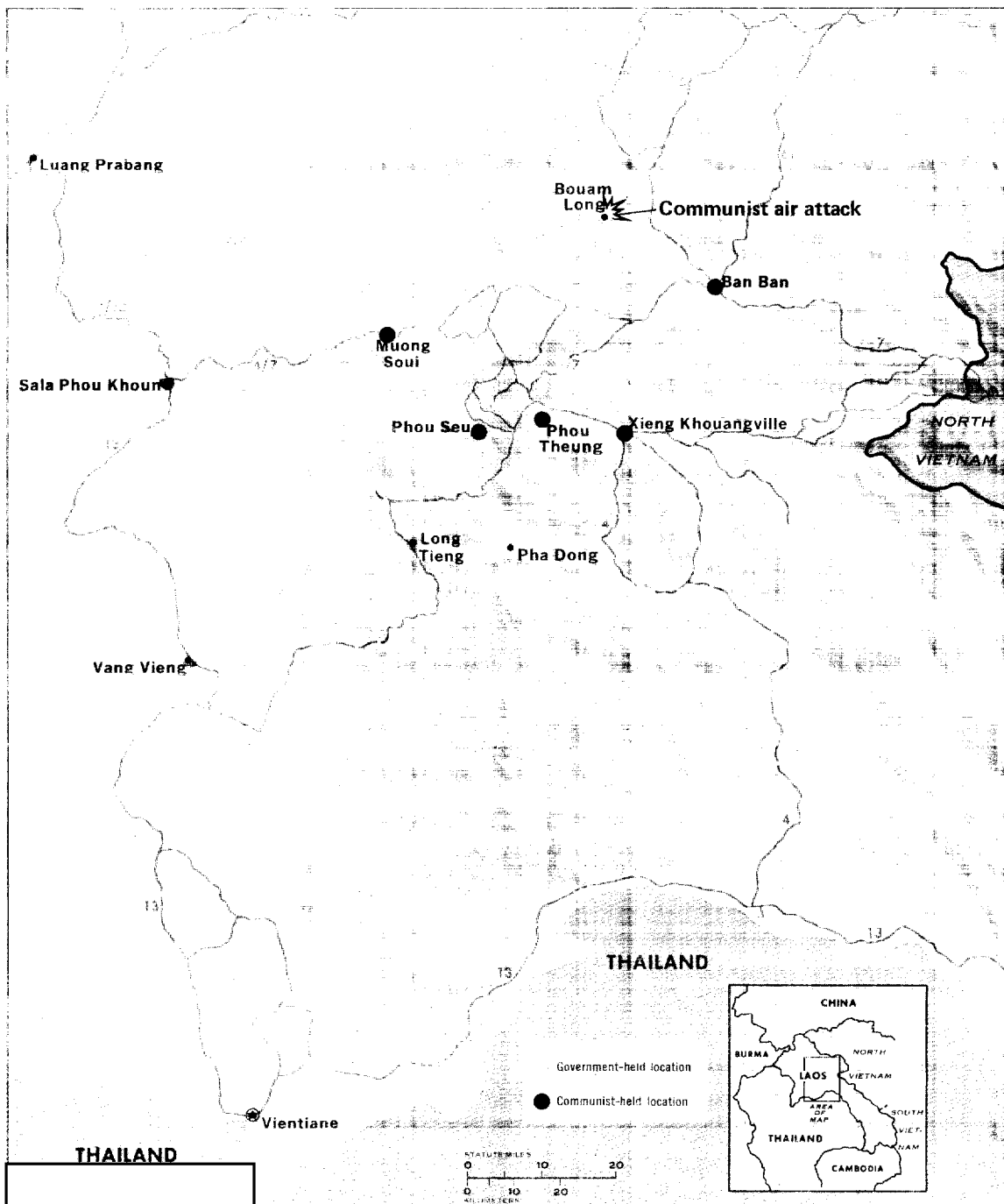
Central Intelligence Bulletin

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LAOS



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LAOS: The Communists have mounted a small air attack against Bouam Long, an isolated government stronghold north of the Plaine des Jarres.

[redacted] two unidentified, propeller-driven aircraft made two passes over the government base. [redacted]

[redacted] two MIGs may have supported the strike. There were no casualties, but a small fuel storage area was set afire. Later in the day, the North Vietnamese began shelling Bouam Long. No ground attack has been reported. Bouam Long, a staging area for operations against Communist lines of communications and supply depots north of the Plaine, has been a thorn in the side of the North Vietnamese for several years. The last air attack against a government outpost was in January of 1968, and it also involved propeller-driven aircraft. [redacted]

10 Oct 72

Central Intelligence Bulletin

9

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